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ROSCOMMON COUNTY FIA

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INTRODUCTION

The Office of Internal Audit performed an audit of Ogemaw/Roscommon County FIA for the period October 1, 1998 through June 16, 1999. The objective of our audit was to determine if internal controls in place at the local offices provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Ogemaw County FIA had 35 full time equated positions (FTE's) at the time of our review. Ogemaw County FIA provided assistance to an average 2,579 recipients per month in FY 1998, with total assistance payments of \$2,857,684 for the fiscal year. Roscommon County FIA had 28 full time equated positions (FTE's) at the time of our review. Roscommon County FIA provided assistance to an average 2,561 recipients per month in FY 1998, with total assistance payments of \$3,107,951 for the fiscal year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Ogemaw and Roscommon County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
ENP/Heat and SER Payments	Medical Transportation
Telephone Charges	Payroll
Procurement Cards	Internal Control Self-Assessment

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Ogemaw and Roscommon County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did, however, find instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of the Ogemaw and Roscommon County FIA Offices have reviewed all findings and recommendations included in this report. They indicated in a memorandum dated July 29, 1999 that they are in general agreement with the report.

OGEMAW/ROSCOMMON COUNTY FIA

COMMON RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a common control weakness at Ogemaw and Roscommon County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Client Information System (CIS) Status Codes

1. Ogemaw/Roscommon County FIA had assigned Client Information System (CIS) status codes that were inconsistent with staff job responsibilities.

In Ogemaw County the Family Independence Managers had been assigned "FIS" status on CIS and three reception staff and one fiscal staff had been assigned "FLM" status. In Roscommon County FIA, three clerical staff that performed reception functions had been assigned "FLM" or "CRS" status on CIS. We also found that two Family Independence

Specialists (former services workers) had their status customized, allowing them access to the Protective Services Management Information System.

Internal Control criteria established by the Family Independence Agency states that Family Independence Managers should be assigned “INQ” or “REG” status on CIS. Staff with ASSIST registration capability should not have CIS file maintenance capability and fiscal staff should be assigned “INQ” or “REG” status.

Assigning or customizing CIS status codes to allow staff access to transactions that are inconsistent with their job functions or responsibility increases the risk of unauthorized transactions being processed that would not be detected in a reasonable period of time.

WE RECOMMEND Ogemaw/Roscommon County FIA change the CIS status codes of the intake reception and fiscal staff to Inquiry (INQ) or “IRG” status on CIS.

WE ALSO RECOMMEND Ogemaw County FIA change the CIS status codes of the Family Independence Managers to Inquiry (INQ) or “REG” status on CIS.

WE FURTHER RECOMMEND Roscommon County FIA remove the customized CIS status of the two Family Independence Specialists that allows them access to the Protective Services Management Information System.

Inventory Control of Food Market Certificates

2. Ogemaw/Roscommon County FIA did not establish adequate control over the inventory supply of pre-numbered Food Market Certificates. Ogemaw/Roscommon County FIA did not maintain a Controlled Document Log (FIA-4070) for the certificates or perform a monthly physical inventory and record it on the Monthly Controlled Document Inventory

and Reconciliation (FIA-4351). Physical inventories at each office disclosed a total value of \$3,070.00. In Roscommon County FIA, one certificate was issued from the inventory out of sequence and one certificate that had been issued to a FIM for issuance to a client could not be accounted for. There was no record to indicate that it had been issued to a client and it was not in the FIM's possession.

Internal Control Criteria established by the Family Independence Agency states that pre-numbered disbursement documents are to have a Controlled Document Log (FIA-4070) maintained and a monthly physical inventory performed that is documented on the Controlled Document Inventory and Reconciliation form (FIA-4351).

Failure to establish inventory control of the Food Market Certificates increases the risk that improprieties may occur and not be detected within a reasonable period of time.

WE RECOMMEND Ogemaw/Roscommon County FIA record the Food Market Certificates on the Controlled Document Log (FIA-4070) and perform monthly physical inventories that are documented on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351).

Payroll Reconciliation and Certification

3. Ogemaw/Roscommon County FIA had not established adequate control over the payroll process. The timekeeper at Ogemaw County FIA certified the payroll on the Data Collection and Distribution System (DCDS) before the payroll was reviewed and approved by staff responsible for certifying the payroll.

Internal Control Criteria established by the Family Independence Agency requires that the payroll be certified on DCDS after the authorized certifier reviews and approves the HR-332A.

WE RECOMMEND Ogemaw County FIA certify the payroll on the Data Collection Distribution System (DCDS) after the authorized certifier has reviewed and approved the payroll.

Control of Cash Receipts and Food Coupons Transferred between Offices

4. Ogemaw/Roscommon County FIA did not have adequate procedures in place to determine that funds and food coupons received in the Roscommon County FIA office that are sent to the Ogemaw County FIA fiscal office were received and processed properly.

Roscommon County FIA records all Official Field Receipts (OFR) issued on a sequentially numbered log. Food coupons received or returned to the Roscommon County FIA are also recorded on logs. A review of the transfers between the offices disclosed one OFR that was not deposited for the amount that it was issued for. Ogemaw County FIA fiscal staff changed the amount on the OFR and returned the difference to the person who had made the payment. Subsequent investigation disclosed that the payment was in excess of the amount required and that returning the funds was appropriate. However the amount the OFR had been issued for should have been deposited and the reimbursement made by a local office check.

Verification of the funds and food coupons transferred from Roscommon County FIA to Ogemaw County FIA by reviewing the sequential OFR log and food coupon logs prepared in Roscommon County FIA improves internal controls over the transfer process.

WE RECOMMEND Ogemaw County FIA have staff independent of the cash receipting and food coupon process verify that all funds and food coupons transferred from Roscommon County FIA to Ogemaw County FIA are received and processed correctly.

OGEMAW COUNTY FIA

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that Ogemaw County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Outstanding Checks

5. Ogemaw County FIA did not follow established procedures for returning outstanding checks to cash. There were six outstanding checks for \$262.42 on the March 31, 1999 bank reconciliation outstanding check list that were over six months old. The most current check was dated August 26, 1998.

Accounting Manual Item 405, page 4, states that checks appearing on the outstanding check list for six consecutive months should be returned to cash.

WE RECOMMEND Ogemaw County FIA review the outstanding check list on a monthly basis and return outstanding checks to cash after six months, as required by Accounting Manual Item 405, page 4.

Verification of Cash Receipts

6. Ogemaw County FIA did not follow established procedures for verifying that funds received through the mail were deposited. Staff independent of the cash receipting process

verified entries on the mail logs retained by staff opening the mail with the original mail logs filed in the fiscal unit at the end of the month. The Office Manager verified funds to be deposited with the amount entered on the Deposit Advice prior to the deposit being made.

Accounting Manual Item 433, page 4 requires verification that all moneys received by the Cashier are included in the deposit. This is accomplished by reconciling entries on the mail logs with the receipts on the edit listing, and by verifying that the amount of cash to be deposited is equal to the total amount of cash receipts.

Verification of the funds to be deposited with the mail logs and edit listing prior to the deposit being made improves internal controls over the cash receipting process.

WE RECOMMEND Ogemaw County FIA have staff independent of the cash receipting process verify that all funds received by the Cashier are included in the deposits, as required by Accounting Manual Item 433, page 4.

Sign-O-Meter Record Reconciliation

7. Ogemaw County FIA did not prepare the Reconciliation Per Check Register section of the Sign-O-Meter Record (FIA-4711) in accordance with established procedures. The check numbers of the checks signed on the Sign-O-Meter Record were entered rather than the check numbers of the checks recorded in the Check Register.

Accounting Manual Item 410.1, page 2 requires the beginning and ending numbers of the checks reported on the check register be entered in the "Reconciliation Per Check Register" section of the Sign-O-Meter Record.

WE RECOMMEND Ogemaw County FIA record the beginning and ending numbers of the checks reported on the Check Register in the “Reconciliation Per Check Register” section of the Sign-O-Meter Record, as required by Accounting Manual Item 410.1.

Journal Voucher Authorization

8. Ogemaw County FIA did not follow established procedures for authorizing journal vouchers. Journal vouchers prepared for Accounts Receivable transactions did not have an authorizing signature.

Accounting Manual Item 450, page 6 requires journal vouchers to be signed by the preparers’ supervisor or person designated by the local office director. Without proper authorization, the risk of unauthorized transactions being processed is increased.

WE RECOMMEND Ogemaw County FIA require all journal vouchers to be properly authorized by the preparers’ supervisor or staff designated by the local office director.

Separation of Duties – Check Signing

9. Ogemaw County FIA did not properly separate cash disbursement functions. Fiscal staff who performed preaudit functions, input on LOAAS, and printed checks also signed and recorded the number of checks processed through the check signing machine on the Sign-O-Meter Record.

Accounting Manual Item 410 states that for internal control purposes, staff responsible for signing checks should be independent of the cash disbursement function.

Allowing staff who prepare authorizations for payment, input on LOAAS, and print the checks to also sign checks increases the risk of unauthorized payments

WE RECOMMEND Ogemaw County FIA have staff independent of the disbursement process sign checks and prepare the Sign-O-Meter Record.

Lost Purchase Order/Invoices (FIA-2083)

10. Ogemaw County FIA did not follow correct inventory procedures for storing or conducting the physical inventory of Purchase Order/Invoices (FIA-2083). As a result, 599 Purchase Order/Invoices that were reported in inventory on the Controlled Document Log (FIA-4070) could not be located. The Purchase Order/Invoices were not in secure storage, but were assumed to be in the storeroom with other supplies. The staff conducting the month-end physical inventory did not physically count the Purchase Order/Invoices. The serial numbers were entered on the Monthly Controlled Document and Inventory Reconciliation (FIA-4351) as a carryover from the prior month inventory.

Accounting Manual Item 403 requires all controlled documents to be stored in a secure place with access restricted to the Designated Employee and alternate backup employees. The controlled documents are to be accounted for by a reconciliation of the actual inventory with the inventory according to the accounting records.

WE RECOMMEND Ogemaw County FIA reduce the inventory of Purchase Order/Invoices (FIA-2083) recorded on the Controlled Document Log (FIA-4070) for the 599 Purchase Order/Invoices that cannot be located.

WE ALSO RECOMMEND Ogemaw County FIA store all controlled documents in secure storage and that the number of documents in inventory recorded on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) be based on an actual count of the controlled documents in inventory.

Recording Warrants on the FIA-61

11. Ogemaw County FIA did not follow established procedures for controlling warrants returned in person to the Local Office. Fiscal staff prepared an Official Cashiers Receipt, but did not record the warrant on the Record and Disposition of Checks/Warrants (FIA-61).

Accounting Manual Item 462, page 2 requires the Record and Disposition of Checks/Warrants (FIA-61) to be used to record warrants and locally issued checks that are sent/returned to the Local Office for disposition.

WE RECOMMEND Ogemaw County FIA record warrants that are returned in person to the Local Office on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 462, page 2.

1998 Internal Control Self-Assessment

12. The Ogemaw County FIA 1998 Internal Control Self-Assessment was reviewed for the areas within the scope of our audit to determine the accuracy of the Assessment at the time of our audit. For the ninety-eight assessable units that related to Ogemaw County FIA, sixty (61 %) were within the scope of our audit. There were five units (8.3 %) that the stated control was not in effect. These related primarily to the Client Information System (CIS) status of staff and the Time and Attendance reconciliation process.

ROSCOMMON COUNTY FIA

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that Roscommon County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Control and Security of Negotiable Instruments

13. Roscommon County FIA did not establish adequate control or security over negotiable instruments received at the Local Office. Our review disclosed the following:

- a. Negotiable instruments received in the mail were not always recorded on the Daily Record of Cash Receipts for Deposit (FIA-4729). Accounting Manual Item 430, page 2 requires all money received for deposit to be recorded on the FIA-4729.
- b. Negotiable instruments were not restrictively endorsed when the Official Field Receipt was prepared by staff in Roscommon County FIA. Rather the negotiable instruments were restrictively endorsed when the Official Cashiers Receipt was prepared in Ogemaw County FIA. Accounting Manual Item 430, page 4, requires all negotiable documents that are to be deposited in the Social Welfare Fund to be restrictively endorsed as soon as possible after they are received in the Local Office.
- c. Negotiable instruments were not kept secure. They were placed in the Ogemaw County FIA mail basket in the mail room until they were mailed or delivered by

courier to Ogemaw County FIA. All Roscommon County FIA staff had access to the mailroom. Failure to keep negotiable instruments in a secure storage area increases the risk that the negotiable instruments will be misplaced or lost.

WE RECOMMEND Roscommon County FIA record all negotiable instruments received through the mail that are to be deposited in the Social Welfare Fund on the Daily Mail Record of Cash Receipts (FIA-4729) and that they be restrictively endorsed when the Official Field Receipt is prepared.

WE ALSO RECOMMEND that all negotiable instruments be kept in a secure area until they are ready to be delivered to the Ogemaw County office.

Voucher Checks (FIA-1802) for the Closed Bank Account

14. Roscommon County FIA had 966 Voucher Checks (FIA-1802) in inventory for the Roscommon County bank account that was closed in March of 1999. The Ogemaw County FIA Fiscal Unit currently processes all cash disbursements.

Accounting Manual Item 403, pages 10-12 describes the procedures that are to be followed to destroy controlled documents.

WE RECOMMEND Roscommon County FIA destroy the Blank Voucher checks (FIA-1802) according to the procedures detailed in Accounting Manual Item 403, pages 10-12.

1998 Internal Control Self-Assessment

15. The Roscommon County FIA 1998 Internal Control Self-Assessment was reviewed for the areas within the scope of our audit to determine the accuracy of the Assessment at the

time of our audit. For the ninety-eight assessable units that related to Roscommon County FIA, sixty (61 %) were within the scope of our audit. There were three units (3.3 %) where the stated control was not in effect. These related to the Client Information System (CIS) status of staff and the Time and Attendance reconciliation process, and the inventory of Food Stamp Participation Cards.